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UNITED STATES GENERAL ACCOUNTING OFFICE  
REGIONAL OFFICE  
7014 FEDERAL BUILDING, 1961 STOUT STREET  
DENVER, COLORADO 80202

MAY 6 1971

Mr. William Lange, Chief  
Division of Management Support  
Engineering and Research Center  
Bureau of Reclamation  
Building 67  
Denver Federal Center  
Denver, Colorado 80225



Dear Mr. Lange:

We have completed our review of the adequacy of the accounting procedures and controls employed by the Bureau of Reclamation, Engineering and Research Center, in recording and reporting accrued revenues and expenditures of selected receipt, appropriation, and fund accounts as of June 30, 1970, and July 31, 1970. Our review at the Center was part of a study conducted at selected departments and agencies to determine if they were recording and reporting accruals in accordance with the concepts of the Office of Management and Budget (OMB) Bulletin No. 68-10, as amended by the letter from the Director, OMB, dated April 13, 1970, and Treasury Fiscal Requirements Manual (TFRM) Transmittal Letters Number 18, 36, 46, and 49. The data gathered was primarily for the information of the Steering Committee of the President's Commission on Budget Concepts.

Our review was limited in scope. We reviewed instructions and procedures related to the recording and reporting of accrued revenues and expenditures. We obtained information regarding these procedures through a test of transactions, responses to a questionnaire submitted to the Center, and discussions with Center financial personnel.

As a result of our review, we have concluded that the accrual procedures employed by the Center are generally in compliance with the OMB and Department of the Treasury concepts. However, we identified two problem areas which we have referred to the Steering Committee for consideration. The first area is the reporting of contract holdbacks and the second is trust fund reporting. Also, we noted some problem areas for which we believe the Center should take corrective action. These problem areas are discussed below.

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CONTRACT HOLDBACKS

The Center does not report contract holdbacks as a liability on Report of Selected Balances for Stating Budget Results on the Accrual Basis, Appropriation and Fund Accounts (Form No. BA-6727). The amount of the holdbacks are, however, included in the accrued expenditures shown on the form. The reason for this is that the holdbacks are recorded as expenditures when transferred to deposit fund 14X6300. Since deposit funds are not in the accrued expenditure reporting system, neither revenues nor liabilities for these are reported.

We have referred to the Steering Committee the question of whether deposit funds should be included in the reporting system.

REPORTING OF TRUST  
FUND REFUNDS

On June 30, 1970, the Center included a refund as a negative revenue on the Form No. BA-6727 for trust fund account 14X8070 (and thus as an increase in net expenditures) and as an accrued revenue on the Form No. BA-6728 for this fund in order to comply with Bureau instructions that net expenditures and accrued revenues on these forms should be equal. This refund was not identified as such on these forms.

We have brought this reporting procedure to the attention of the Steering Committee because we believe it is potentially misleading.

UNRECORDED AND UNREPORTED  
RECEIVABLES AND PAYABLES

The Center does not accrue for monthly reporting purposes the cost of materials received between the monthly cost cut-off date, generally the 25th, and the end of the month, except at the end of the fiscal year when the costs are recorded through June 30. We were advised by a Center representative that this accrual could be made for Form No. BA-6727 reporting purposes.

The Center does not record accounts receivable for the costs incurred in performing work for Bureau of Reclamation regions between the cut-off date and the end of the month. However, contract costs other than those for material are placed in accrued expenditures during this period, but they are not reported to the regions until the subsequent month.

Bulletin No. 68-10 states that accrued expenditures and receipts are to be used as the measure for budget reports. By not recording and reporting the above items we believe the Center is not complying with this policy.

The Center also performs work for other governmental organizations. We found that the Center does not set up a receivable for those costs incurred on a job which are in excess of the advance received. Instead in their accounts they show the organization as having a negative advance, and for reporting purposes negative balances are netted against those with positive balances. TFRM Transmittal Letters Number 18 and 36 indicate that such a receivable should be on the Form No. BA-6727 and the Report of Selected Balances for Stating Budget Results on the Accrual Basis, General, Special and Trust Fund Receipt Accounts (Form No. BA-6728). They point out that accounts receivable on these forms should include receivables from customers for goods and services whether or not they are billed.

In addition to the above, we found that Center procedures do not provide for the recording and reporting of refund liabilities against receipt account 145000.2. We were told that there could be instances where, at the end of the month, there are refunds payable. We noted one such unrecorded payable at the end of August 1970. These liabilities should be reported in accordance with TFRM Transmittal Letter Number 36 which states that the accounts payable column on the Form No. BA-6728 is "\*\*\* to include any liability arising in relation to receipt accounts."

We recommend that the Center record and report the above items to conform to the OMB and Department of the Treasury accrual and reporting concepts. Along with recording and reporting these transactions, the Center must make provision for notification of Bureau of Reclamation regions and other governmental agencies about the work performed for them or the refunds due them in time for them to report the proper data during the appropriate accounting period.

#### MONTHLY CONTRACT EARNINGS ESTIMATES

A contract administrator told us that he does not use any particular procedure to arrive at his monthly estimates of contract earnings for accrual purposes. We made a test of contract administrators' estimates and found that they were usually much higher than the contractors' billings.

Bulletin No. 68-10 states that it is important that the reported accruals be a sensitive reflection of the transactions and performance which actually occur.

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We do not believe that the Center's monthly earnings estimates are providing the Treasury with a sensitive reflection of the monthly contract performance which has occurred. Accordingly, we suggest that the Center study the matter to determine a practicable procedure for arriving at more reliable estimates.

#### RECONCILIATION OF ACCRUED REVENUE

The Center used the formula per TFRM Transmittal Letter No. 18 as the source for rather than as a validation of the amount of accrued revenue reported on its Forms No. BA-6728 for accounts 145000.2 and 14X8070.

A Center representative told us that accrued revenue for receipt account 145000.2 can be readily developed from account 494.1 (Miscellaneous Income). We believe the amount of accrued revenue shown on the Form No. BA-6728 for 14X8070 should be taken from account 245.4 (Expended Trust Appropriation, Current Year), since this account represents the revenues earned by the Center.

We were told by a Center representative that as a result of our review account 494.1 is now being used as a control to insure that the amount of accrued revenue for receipt account 145000.2 derived by using the formula is correct. We recommend that the Center continue this procedure and that account 245.4 be used as the source of accrued revenue for account 14X8070, with the formula being used as a validation of the amount.

#### TRAVEL ADVANCES

At the end of fiscal year 1970 per instructions from the Chief, Division of Program Coordination and Finance, the Center reclassified its outstanding travel advances in account 14X5061 as accounts receivable because they were not supported by valid obligations. We were told that this is the case at the end of each fiscal year. Other than at yearend these advances are reported as advances on the Form No. BA-6727.

Therefore, in order to make full disclosure in the Treasury reports, we recommend that the amount of outstanding travel advances included in accounts receivable be disclosed by footnote.

#### MISCLASSIFICATION OF ACCOUNTS RECEIVABLE

The final Form No. BA-6728 for receipt account 145000.2 as of June 30, 1970, showed the accounts receivable from Government agencies as being from the public on the basis of paragraph 8c of TFRM Transmittal Letter Number 49. This paragraph states that "\*\*\* receivables from and payables to deposit funds are to be reported as relating to the public." We learned from the Department of the Treasury that this paragraph would apply to 145000.2 only if deposit funds were owed to it. We determined that 145000.2 had no such receivables.

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We discussed this matter with a responsible Center representative, and he said that there had been a misclassification.

\$50,000 REVOLVING FUND

The Form No. BA-6727 for account 14X5061 as of June 30, 1970, included as unearned revenue \$45,258 from account 253.5 (Miscellaneous Deferred Credits). This represented the remainder of a \$50,000 fund established by the Center in 1959 to finance work performed by the Center for other Government agencies when advances are not received. We were told that the fund is always reimbursed to \$50,000.

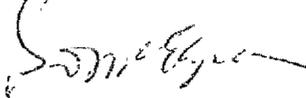
We feel that the \$50,000 was improperly classified as unearned revenue because it was actually used as a revolving fund. Also, we question the legality of using this as a revolving fund. In October 1970 the Chief, Division of Program Coordination and Finance directed the Center to apply the \$50,000 to General Distributive Expense, and this was done.

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Please notify us as soon as possible regarding the corrective actions you have taken for the areas mentioned above.

We wish to express our appreciation for the cooperation received from your staff. We will be glad to discuss the results of our work with you or your staff if you so desire.

Copies of this letter are being sent to the Commissioner, Bureau of Reclamation, and the Director, Office of Survey and Review, Department of the Interior.

Sincerely yours,



S. D. McElyea  
Regional Manager